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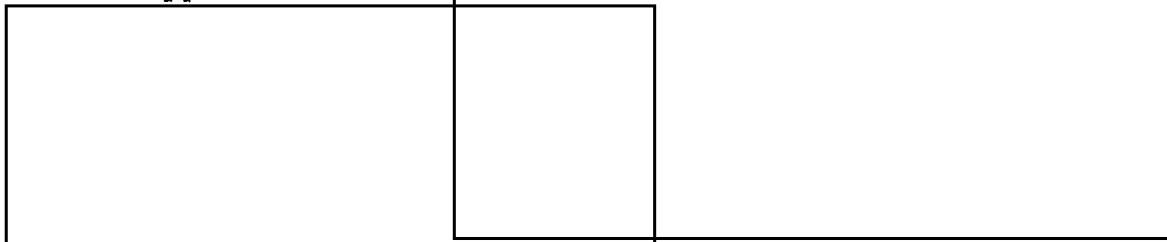
Ankara needs at least \$500 million in economic assistance on top of the \$400 million already raised abroad this year to prevent foreign exchange reserves from falling to dangerously low levels. Acute balance-of-payments problems have developed since 1973 because of higher oil prices, the costly Cyprus military operation, and the depressing effect of world recession on exports. The deterioration in the foreign accounts has been particularly severe since the beginning of the year. Foreign exchange reserves have fallen \$600 million from December to July to only \$1 billion -- equivalent to less than 4 months imports.

The latest trade figures show a 75% increase in the trade deficit through the first nine months of the year, compared with the same period in 1974. Exports fell 1.8% to \$1.1 billion, while imports rose 40% to \$3.5 billion -- with imports of raw materials and finished industrial products accounting for much of the increase. As a result the deficit widened to \$2.4 billion, from \$1.4 billion in the same period last year. With Turkish emigrants having difficulty finding or keeping jobs in recession-ridden Western Europe, worker remittances -- the most important offset to the trade deficit -- were only \$508 million in the first half of the year, a decline of 10% from last year.

If current trends continue, as seems likely, Turkey will have to cover a \$1.4 billion current account deficit this year, double last year's total. Ankara has raised \$400 million so far this year, most of it coming from multilateral institutions such as the International Monetary Fund and the World Bank. These funds and the \$600 million reserve drawdown have covered the deficit to date.

Unless an additional \$500 million can be raised, foreign reserves will fall below \$600 million -- equivalent to two months imports -- which is considered to be a dangerously low level. However, the prospects of raising additional funds appear to be dim.

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Ankara views the implementation of import controls as a last resort. Turkey's imports are mainly of capital goods for development and raw and semi-processed goods for domestic industries. To restrict these would adversely affect Turkish employment and economic activity now and in the future. If the situation continues to deteriorate, however, import controls will be examined more seriously as an alternative to continued drawdown of reserves.

Implementation of some sort of austerity program is another, less likely alternative. The Demirel government is reluctant to reduce social welfare expenditures in the face of possible early elections in the spring. A reduction in defense expenditures is unthinkable. As a result, any budget cuts would probably come from investment spending. A tax increase, particularly on the corporate sector, also is possible.

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